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John W. Suomela, *Director*

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INTERNATIONAL TRADE DEVELOPMENTS:

Regional trade may begin to recover in the former Soviet bloc
Since 1990, trade has declined sharply among the countries of Central and Eastern Europe (Bulgaria, Czechoslovakia, Hungary, Poland, and Romania) and between each of these countries and the former Soviet Union. But now some signs suggest that the decline of trade is bottoming out in the region, and that it may begin to recover during 1993.
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INTERNATIONAL ECONOMIC COMPARISONS

Summary of U.S. Economic Conditions

The U.S. economy took a clear turn for the better in early 1992. Real gross domestic product (GDP) grew at an annualized rate of 2.0 percent during the first quarter of 1992, following a near stagnant rate during the closing quarter of 1991. A record increase in exports during February resulted in the lowest monthly trade deficit since May 1983. Nevertheless, expectations of a sustained recovery remain shaky. Following a sharp recovery in consumer demand during January and February, retail sales dropped by 0.4 percent during March. After rising during the first 2 months of 1992, new housing starts remained unchanged from February to March. The index of leading economic indicators edged up by only 0.2 percent from February to March, suggesting a very moderate upturn in the months ahead. The U.S. Department of Commerce revised downward its estimate of spending increases for new plants and equipment during 1992, from 5.4 percent to 4.6 percent.

Analysts are concerned that the languishing rates of growth predicted for the economies of industrial countries could check the growth of U.S. exports. Moreover, concern remains that the high levels of consumer debt could arrest the first quarter's rise in consumer outlays.

To spur recovery, the Federal Reserve cut interest rates by a quarter point to 3.75 percent in April. But many analysts think that unresolved consumer, corporate, and Federal debt problems will prevent expansionary monetary policy from being as effective as in previous periods of recovery.

Economic Growth

The estimated 2.0-percent increase in real GDP during the first quarter of 1992 followed an increase of only 0.4 percent during the fourth quarter of 1991. Real GDP (i.e., the U.S. output of goods and services in 1987 prices) increased by 1.8 percent during the third quarter of 1991 and by 1.4 percent during the second quarter. The annualized rate of decline was 2.5 percent during the first quarter of 1991, making the extent of decline 0.7 percent for all of 1991. Real GDP increased by 1.0 percent during 1990.

The annualized rate of real economic growth during the fourth quarter of 1991 was -1.1 percent in the United Kingdom, -1.4 percent in Germany, nil percent in France, -0.8 percent in Canada, and 0.1 percent in Japan. In Italy, it was 0.2 percent during the third quarter of 1991.

Industrial Production

Seasonally adjusted U.S. industrial production increased in nominal terms by 0.2 percent in March after climbing by a revised 0.5 percent in February 1992. In spite of these gains, total industrial output was still about 1 percent below last October's level. Total industrial production in March 1992 was 2.1 percent higher than in March 1991. For the first quarter of 1992, industrial production declined at an annual rate of 4.1 percent after a 0.7-percent fall during the previous quarter. Capacity utilization in manufacturing, mining, and utilities increased slightly to 78.1 percent, from 78 percent in February 1992. Unusually low temperatures in March caused a 2.2-percent rise in utility output. Manufacturing production edged up by 0.1 percent, and mining output (including oil well production) slipped by 0.2 percent. Output of durable goods increased by 0.1 percent, and output of nondurables increased by 0.2 percent.

Other major industrial countries reported the following annual growth rates of industrial production: For the year ending February 1992, Japan reported a decrease of 4.2 percent. For the year ending January 1992, Germany reported an increase of 0.1 percent; France, an increase of 0.4 percent; the United Kingdom, a decrease of 1.1 percent; Canada, a decrease of 1.2 percent; and Italy, a decrease of 1.7 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index (CPI) rose by 0.5 percent in March, after rising by 0.3 percent in February 1992. The CPI rose by 3.2 percent during the 12 months ending March 1992.

During the 1-year period ending March 1992, consumer prices increased by 4.7 percent in Germany and by 5.5 percent in Italy. During the 1-year period ending February 1992, prices increased by 1.7 percent in Canada, by 3.0 percent in France, by 4.1 percent in the United Kingdom, and by 2.0 percent in Japan.

Employment

The seasonally adjusted rate of unemployment in the United States was 7.3 percent in March, unchanged from the rate in February 1992.

In February 1992, unemployment was 9.4 percent in the United Kingdom, 2.0 percent in Japan, 10.6 percent in Canada, 9.9 percent in France, and 10.7 percent in Italy. In March 1992, unemployment was 6.2 percent in Germany. (For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.)

Forecasts

Forecasts point to a moderate rebound of economic growth starting the second quarter of 1992, fol-

lowed by stronger growth during the remainder of the year. Table 1 shows macroeconomic projections for the U.S. economy for January-December 1992 by four major forecasters and the simple average of these forecasts. Forecasts of all the economic indicators except unemployment are presented as percentage changes over the preceding quarter, on an annualized basis. The forecasts of the unemployment rate are averages for the quarter. (These forecasts were made before the release of March 1992 economic data.)

Moderating the economic recovery during 1992 will be an expected sluggish rise in consumer spending, particularly consumer spending on durable goods, an expected low rise in capital investment, and continued slow growth in the industrialized countries. The International Monetary Fund expects industrial countries to grow about 2 percent during 1992, up from 1.0 percent during 1991. In particular, the anticipated decline in Japan's growth rate from 4.5 percent during 1991 to 2.4 percent during 1992 is expected to adversely affect the growth of the global economy.

Table 1
Projected quarterly percentage changes of four U.S. economic indicators, by quarters, January-December 1992

Period	*UCLA Business Fore-casting Project*	*Merrill Lynch Capital Markets*	*Data Resources Inc.*	*Wharton E.F.A. Inc.*	*Mean of 4 fore-casts*
	Value (GDP current dollars)				
January-March	3.7	3.2	4.9	4.7	4.1
April-June	2.7	5.8	5.3	4.9	4.7
July-September	6.0	7.0	5.9	5.9	6.2
October-December	6.8	7.0	6.3	5.8	6.5
	Value (GDP constant (1987) dollars)				
January-March	0.8	0.3	1.7	1.4	1.1
April-June	1.8	2.4	3.1	2.7	2.5
July-September	2.7	3.4	2.8	3.2	3.0
October-December	3.1	3.2	3.1	3.0	3.1
	GDP deflator index (1987=100)				
January-March	2.8	2.9	3.1	3.2	3.0
April-June	0.9	3.3	3.1	2.1	2.4
July-September	3.3	3.5	3.0	2.8	3.2
October-December	3.7	3.6	3.0	2.8	3.3
	Unemployment, average rate				
January-March	7.3	7.1	7.2	7.2	7.2
April-June	7.4	7.1	7.2	7.2	7.2
July-September	7.5	6.9	7.1	7.2	7.2
October-December	7.4	6.8	7.0	7.1	7.1

Note.—Except for the unemployment rate, percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Date of forecasts: April 1992.

Source: Compiled from data provided by The Conference Board. Used with permission.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit declined from $6.0 billion in January to $3.4 billion in February 1992, the lowest monthly level since May 1983. A record increase in February exports and a slight decrease in imports accounted for the improvement in the monthly balance. In February, exports increased by $2.4 billion to $37.8 billion, and imports decreased by $158 million to $41.2 billion. The trade deficit dropped to $9.3 billion during January-February 1992, from $12.9 billion during the corresponding period of 1991.

Seasonally adjusted U.S. merchandise trade in billions of dollars as reported by the U.S. Department of Commerce is shown in table 2.

The February 1992 deficit was 32 percent lower than the $5.0 billion average monthly deficit registered during the previous 12-month period and 38 percent lower than the $5.5 billion deficit registered in February 1991. When oil is excluded, the February 1992 merchandise trade deficit decreased by $2.4 billion from the previous month.

Nominal export changes and trade balances in February 1992 for specified major commodity sectors are shown in table 3. Airplanes, vehicle parts, automatic data processing and office machinery, power generating machinery, scientific instruments, electrical machinery, specialized industrial machinery, telecommunications, and agricultural products recorded the largest increases from January to February 1991. Airplanes led the sectors that recorded trade surpluses during January-February 1992.

The U.S. agricultural trade surplus increased from $1.6 billion in January to $2.0 billion in February 1992.

U.S. bilateral trade balances on a monthly and year-to-date basis with major trading partners are shown in table 4. From January to February 1992, the United States registered declines in bilateral merchandise trade deficits with Japan, the European Free Trade Association (EFTA), Germany, the Newly Industrialized Countries (NICs), China, and the Organization of Petroleum Exporting Countries (0PEC). The U.S. deficit with Canada increased slightly. The U.S. trade surpluses with the EC and Western Europe, as a whole, increased markedly. From January-February 1991 to the corresponding period of 1992, the United States registered substantial declines in its bilateral trade deficits with Germany, Canada, EFTA, and 0PEC. The U.S. deficits with Japan and China increased, whereas U.S. trade surpluses with the EC, Western Europe, Mexico and the former USSR increased substantially over the period.

Table 2
U.S. merchandise trade, seasonally adjusted, January and February 1992

Item	*Exports* January	*Exports* February	*Imports* January	*Imports* February	*Trade balance* January	*Trade balance* February
Current dollars:						
Including oil	35.4	37.8	41.4	41.2	-6.0	-3.4
Excluding oil	34.8	37.3	37.7	37.9	-2.9	-0.5
1987 dollars	33.5	35.6	38.7	38.6	-5.3	-3.0
Three-month-moving average	36.1	36.4	41.5	41.5	-5.4	-5.1
Advanced-technology products (not seasonally adjusted)	7.9	9.2	4.9	5.1	+3.0	+4.1

Source: *U.S. Department of Commerce News, (FT 900)*, Apr. 1992.

Table 3
Nominal U.S. exports and trade balances, not seasonally adjusted, by specified manufacturing sectors, January 1991-February 1992

Sector	Exports: January-February 1992	Exports: February 1992	Change: January-February 1992 over January-February 1991	Change: February 1992 over January 1992	Share of total January-February 1992	Trade balances January-February 1992
	Billion dollars		*Percent*			*Billion dollars*
ADP equipment & office machinery	4.1	2.1	1.2	9.2	5.8	-0.80
Airplanes	4.8	2.9	73.0	50.5	6.8	4.31
Airplane parts	1.6	0.8	-4.9	1.3	2.2	1.00
Electrical machinery	5.1	2.6	8.5	4.8	7.2	-0.70
General industrial machinery	3.0	1.5	19.3	-1.3	4.2	0.54
Iron & steel mill products	0.6	0.3	-7.5	-6.3	0.9	-0.73
Inorganic chemicals	0.7	0.3	16.4	-13.2	1.0	0.06
Organic chemicals	1.7	0.8	-13.6	-4.6	2.4	0.25
Power-generating machinery	2.8	1.3	8.2	7.2	3.9	0.31
Scientific instruments	2.3	1.2	11.5	6.2	3.3	1.23
Specialized industrial machinery	2.6	1.4	3.6	8.8	3.7	0.83
Telecommunications	1.7	0.8	14.6	3.7	2.3	-2.00
Textile yarns, fabrics and articles	0.9	0.5	12.2	2.2	1.3	-0.32
Vehicle parts	2.5	1.3	28.3	9.9	3.6	0.12
Other manufactured goods[1]	4.4	2.2	14.0	-0.9	6.2	-0.46
Manufactured exports not included above	16.1	8.2	5.6	1.6	22.6	-13.31
Total manufactures	54.9	28.3	11.1	6.4	77.0	-9.69
Agriculture	7.4	3.8	11.8	5.6	10.4	3.48
Other exports	9.0	4.7	-8.4	10.0	12.6	-1.47
Total	71.3	36.8	8.2	6.7	100.0	-7.68

[1] This is an official U.S. Department of Commerce commodity grouping.

Note.—Because of rounding, figures may not add to total shown.

Source: *U.S. Department of Commerce News (FT900)*, Apr. 1992.

Table 4
U.S. merchandise trade deficits (-) and surpluses (+), not seasonally adjusted, by specified areas, by specified periods, January 1991-February 1992

(Billion dollars)

Area or country	*February 1992*	*January 1992*	*February 1991*	*January-February 1992*	*January-February 1991*
Japan	-2.97	-3.82	-3.16	-6.78	-6.62
Canada	-0.69	-0.26	-0.51	-0.95	-0.96
Germany	-0.07	-0.23	-0.56	-0.30	-0.99
EC	+2.47	+1.88	+1.42	+4.35	+2.76
Western Europe	+2.63	+1.69	+1.36	+4.32	+2.46
EFTA	-0.03	-0.20	-0.12	-0.23	-0.41
NICS[1]	-0.63	-1.31	-0.56	-1.94	-1.56
USSR (former)	+0.26	+0.29	+0.32	+0.55	+0.47
China	-1.23	-1.40	-0.77	-2.63	-1.69
Mexico	+0.58	+0.58	+0.12	+1.16	+0.04
OPEC	-0.37	-0.74	-1.32	-1.10	-3.34
Total trade balance	-2.28	-5.40	-4.33	-7.68	-11.35

[1] NICs include Singapore, Hong Kong, Taiwan, and the Republic of Korea.

Note.—The difference between trade balances shown in total exports table and those shown in the above (country/area) table represents exports of certain grains, oilseeds, and satellites that are not included in the country/area exports.

Source: *U.S. Department of Commerce News (FT-900)*, Apr. 1992.

INTERNATIONAL TRADE DEVELOPMENTS

Regional Trade May Begin to Recover in the Former Soviet Bloc

The volume of trade (exports plus imports in constant prices) among the European members of the dissolved Council for Mutual Economic Assistance (CMEA) fell by an estimated 25 to 50 percent during 1990 and 1991. (At the time of its dissolution in June 1991, the CMEA included Bulgaria, Czechoslovakia, Hungary, Poland, Romania, the former Soviet Union, and three non-European members: Cuba, Mongolia, and Vietnam. Until German unification in 1990, East Germany was also a member.) This decline deepened the regionwide economic downturn that began during 1990. Gross Domestic Product (GDP), adjusted for inflation, declined by 23 percent in Bulgaria during 1991, by 12 percent in Czechoslovakia, by 8 percent in Hungary, by 8 to 10 percent in Poland, by 14 percent in Romania, and by 10 percent in the former Soviet Union.

During 1991, the volume of total trade declined in all six Soviet bloc countries mentioned above, mainly as a result of the drastic reduction in trade among the members of the former CMEA. Increased exports to the industrialized countries, particularly to the European Community, helped Czechoslovakia, Hungary, and Poland to offset at least partially the reduction of shipments to former CMEA partners. Bulgaria, Romania, and the former Soviet Union were less fortunate because their exports to all markets decreased. The volume of total exports declined by an estimated 40.0 percent in Bulgaria, 10.7 percent in Czechoslovakia, 10.0 percent in Hungary (estimate based on January-October figures), 1.5 percent in Poland, 29.7 percent in Romania, and 32.7 percent in the former Soviet Union.

During 1990, CMEA trade began its sharp decline. The unification of Germany led to the withdrawal of East Germany from the trading bloc; Czechoslovakia, Hungary, and Poland succeeded in reorienting their trade toward the industrialized countries; and the gradual disintegration of the Soviet, Bulgarian, and Romanian economies further intensified the process. In turn, the reduction of CMEA trade itself helped precipitate the worst economic downturn in the Central and East European (CEE) countries (Bulgaria, Czechoslovakia, Hungary, Poland, and Romania) and in the former Soviet Union since World War II. The regionwide fall in output caused a further reduction in trade among these countries.

Paradoxically, the same reforms that were intended to modernize commercial relations among the countries of European CMEA contributed to the decline in trade among them. On January 1, 1991, new regulations ending the state's direct control over trade with another CMEA country went into effect in all the European member states of the trade organization. Enterprises were allowed to terminate trade relations with their CMEA counterparts, but had to assume full responsibility for deliveries or payments if they had made deals with them. New regulations also stipulated that world market prices determine the value of delivery contracts and that convertible currencies be used as a means of payment. Disagreements over prices and the inexperience of enterprise management in the technicalities of foreign trade operations, particularly in the former Soviet Union, disrupted long-term supply agreements among enterprises from the different countries. Moreover, once given the choice, importers, particularly in Czechoslovakia, Hungary, and Poland, favored suppliers from the industrialized countries over those from their former CMEA partners. Finally, the shortage of convertible currencies slowed payments or prevented the conclusion of contracts.

At present, analysts think that the decline of trade in the former Soviet bloc is bottoming out and that, in connection with an overall economic recovery in the CEE region, trade will begin to recover during 1993. As soon as aggregate demand begins to rise, analysts suggest, enterprises in the CEE countries will increase their short-term import demand from the former CMEA partners, providing further stimulus for the recovery. In addition, some of the factors that tended to reduce trade among the European members of the former CMEA during 1990 and 1991—confusion over prices, lack of trade expertise, and inefficient production—are apparently decreasing, at least in the CEE countries.

Following the implementation of market-oriented reforms in the CEE countries, the gradual stabilization of relative prices is increasingly allowing the rational consideration of export possibilities and import needs. Moreover, particularly in the CEE countries, enterprise managers have gained some expertise and experience in foreign trade operations. To some extent, this is the direct result of technical assistance from the United States and other industrialized nations. Further, the opportunity given to importers throughout the former Soviet bloc to choose suppliers from outside the region now forces producers who used to live off the undemanding CMEA market to compete with nonregional suppliers.

The 1992 bilateral trade agreements between the partner states use countertrade and clearing arrangements to stretch the area's sparse convertible currency reserves available for trade financing. These bilateral protocols roughly indicate the expected level of commodity exchange in dollars between a given pair of countries. They also stipulate that revenues derived by an exporting country be expended for the purchase of goods in the importing country. For example, the funds derived by a Bulgarian foreign trade organization exporting to Czechoslovakia are deposited in a Prague bank. The foreign trade organization then can sell part of its proceeds to a Bulgarian enterprise wanting to import from Czechoslovakia. At the end of the year, outstanding balances between

each pair of countries are settled in convertible currencies.

The recovery of trade in the former European CMEA will be further boosted by a number of other factors. Czechoslovakia, Hungary, and Poland plan to sign a trilateral free-trade agreement among themselves later during 1992. (See *IER*, February 1992, pp. 13-14). Moreover, the $24 billion financial support offered to Russia by the world's leading industrialized democracies will help restore that country's effective demand for commodities produced in the CEE countries.

Analysts expect that the current bilateral basis of trade among the former CMEA members will gradually give way to the more efficient multilateral system. The European Community-financed Center for European Policy Studies and the United Nations European Commission are currently studying forms of regional clearing agreements and payment unions that these countries could adopt. Such mechanisms were deemed useful in fostering multilateral trade and economic integration among West European countries in the post World War II era.

The United States Shows a Surplus in Trade with Mexico

Merchandise Trade Balance

In 1991, for the first time in ten years, the United States registered a merchandise trade surplus with Mexico. As figure 1 shows, two-way trade established a new record of $62.6 billion. Mexico maintained its usual place as the third-largest single-country market for U.S. exports and the third-largest single-country source of U.S. imports. However, despite ranking right behind Canada and Japan as a U.S. trading partner, Mexico still accounted for only 8.1 percent of overall U.S. exports and 6.3 percent of total U.S. imports. By contrast, Mexico depended on the United States for approximately 70 percent of its exports and 67 percent of its imports.

The U.S. trade balance with Mexico shifted to a deficit in 1982, the year when Mexico's foreign debt crisis became manifest. At that time, the debt crisis triggered the imposition of rigorous import controls in Mexico that were designed to generate sizable trade surpluses to finance debt servicing. The U.S. trade deficit with Mexico was $7.9 billion in 1983, but began to shrink in subsequent years as Mexico gradually relaxed its stringent import controls. The contraction of the U.S. deficit has accelerated since 1988, when the liberalization of Mexican imports began to be felt. Then, last year, the U.S.-Mexican trade balance returned to its precrisis pattern, with a balance favoring the United States. The 1991 U.S. surplus amounted to $1.8 billion.

Manufactures predominate in U.S.-Mexican trade, comprising about 80 percent of U.S. exports and 69 percent of U.S. imports. Two-way trade in manufactures can be characterized as being largely "intra-industry," since a considerable volume in both directions takes place within the same large product categories or is the result of production sharing between U.S. and Mexican plants. (Production sharing is discussed below in the section on "U.S. Imports.")

In 1991, bilateral trade in machinery and transportation items continued to be largely balanced. This major product category constituted 46.6 percent of total U.S. exports to Mexico and 47.7 percent of total U.S. imports from that country. Three product categories contributed most to the positive U.S. balance with Mexico: chemicals (8.1 percent of U.S. exports but only 2.2 percent of U.S. imports); manufactured articles made chiefly of steel and textiles (13.7 percent of U.S. exports but only 7.3 percent of U.S. imports); and crude materials (5.0 percent of U.S. exports but only 2.2 percent of imports).

By contrast, the United States continued to have its typical bilateral trade deficit in mineral fuels, which accounted for 15.2 percent of U.S. imports from Mexico but only 2.6 percent of U.S. exports to that country. The United States also had a deficit in food trade with Mexico in 1991, largely as a result of considerable imports of Mexican fruit and vegetables. Food was responsible for 8.2 percent of U.S. imports but only 6.5 percent of U.S. exports.

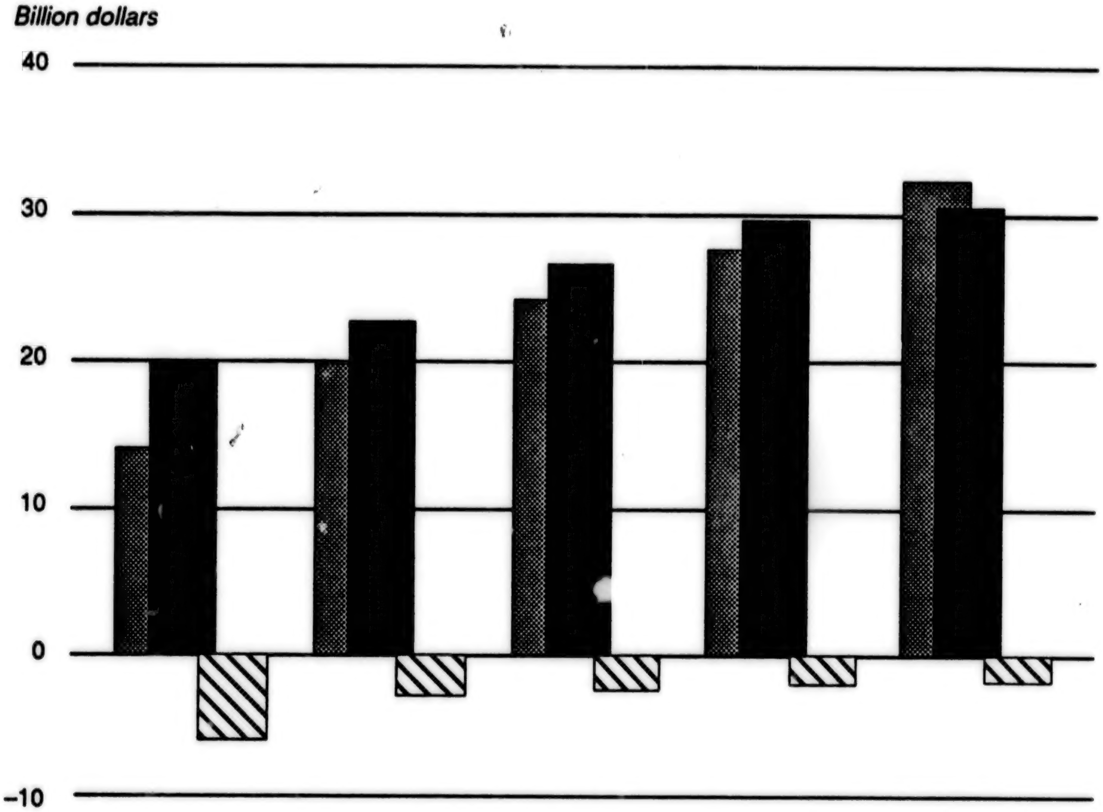
U.S. Exports

For the fifth year in a row, Mexico was the top-performing market for U.S. exports. In spite of their lower *per capita* income, the Mexicans spend more *per capita* on U.S goods than the Europeans and almost as much as the Japanese. Of every dollar earned in Mexico, 12 cents is spent on U.S. goods.

As figure 1 shows, U.S. exports to Mexico continued to increase rapidly in 1991; they amounted to $32.2 billion, up 17.5 percent from 1990. The steep upward trend of this trade during the past few years can be largely attributed to Mexico's radical economic and trade liberalization reforms. These reforms made it possible for Mexicans to meet the pent-up demand that was the result of protectionist practices in prior years. The vigor of the Mexican economy and the Government's exchange-rate policy, which maintained the relative strength of the peso, were additional factors that boosted Mexican imports from the United States.

During 1991, U.S. exports to Mexico increased in all major product categories, especially in manufactured goods. Auto parts continued to be top items, with several of them registering significant export gains. After Canada, Mexico has been consistently the second-biggest U.S. market for U.S. auto parts, and it has been the fastest growing market for these items during the last decade. U.S. sales of auto parts and many other items, especially electronic parts, within the leading machinery category were sustained in part by U.S.-Mexican production sharing.

Figure 1
U.S. trade with Mexico: Exports, imports, and trade balance, 1987–91



Exports	$14.0	$19.8	$24.1	$27.5	$32.2
Imports	$19.8	$22.6	$26.5	$29.5	$30.4
Balance	–$5.8	–$2.8	–$2.4	–$2.0	$1.8

Source: Compiled from official statistics of the U.S. Department of Commerce.

Items with notable U.S. export gains in 1991 included refined oil products, soybeans, and grain sorghum. After Japan and the former Soviet Union, Mexico is the third-largest export market for U.S. agricultural products, consisting mostly of cereals and soybeans.

U.S. Imports

In 1991, U.S. imports from Mexico amounted to $30.4 billion, up 10 percent. This trade flow contained two large components deserving special note: (1) imports generated by U.S.-Mexican production sharing, some of which entered duty free under the Harmonized Tariff Schedule (HTS) subheadings 9802.00.60 and 9802.00.80, and (2) Mexican products with duty-free entry under the U.S. program of the General System of Preferences (GSP) (see table 5).

U.S. imports of Mexican machinery and transport equipment—the largest import category—continued to grow in 1991, as did imports of miscellaneous manufactures and chemicals. Automotive products and telecommunications equipment were the leading items not only in the machinery category but also among all U.S. imports from Mexico. The Mexican automobile industry consists mainly of foreign subsidiaries, such as those of the big three U.S. automakers, Volkswagen, and Nissan.

A large part of U.S. machinery imports from Mexico—especially of auto parts, telecommunications equipment, and office machinery—are generated by production sharing. Such imports enter the United

Table 5
Value of U.S. imports from Mexico entered under HTS items 9802.00.60 and 9802.00.80 and under GSP provisions, and percent of total, by years, 1988-91

HTS and GSP	*Year*	*Value*	*Percent of total*
HTS:		*(Million dollars)*	
9802.00.60	1988	131.0	.6
	1989	181.1	.7
	1990	188.3	.6
	1991	183.5	.6
9802.00.80	1988	10,653.5	47.1
	1989	11,766.7	44.3
	1990	12,836.3	43.5
	1991	14,150.6	46.5
Subtotal	1988	10,784.5	47.7
	1989	11,947.8	45.0
	1990	13,024.6	44.1
	1991	14,334.1	47.1
GSP	1988	2,192.3	9.7
	1989	2,470.8	9.3
	1990	2,688.6	9.1
	1991	3,838.2	12.6
Total U.S. imports from Mexico	1988	22,617.2	100.0
	1989	26,556.6	100.0
	1990	29,505.9	100.0
	1991	30,445.1	100.0

Source: Compiled from official statistics from the U.S.Department of Commerce.

States under HTS subheadings 9802.00.60 or 9802.00.80 after further processing or assembly in Mexico from inputs imported from the United States. The United States levies duty only on the value added in Mexico; the U.S. content enters duty free. The U.S. content in imports generated by production sharing is higher in those from Mexico than from any other source. In 1990, 50 percent of imports from Mexico under HTS subheadings 9802.00.60 and 9802.00.80 consisted of U.S. content returned. The comparable figures for Canada were 40 percent and for the rest of the world, 13 percent.

The plants involved in production sharing on the Mexican side are generally "maquiladoras," in-bond production facilities established since 1965 under Mexico's Border Industrialization Program. The term "maquiladora" is frequently associated with the labor-intensive subsidiary of a U.S. or of another foreign company that receives from its parent the machinery, equipment, and raw materials needed for processing or assembling components manufactured outside Mexico. Since maquiladoras generally export their products, their imports are regarded as temporary and therefore not subject to Mexican import duties. The maquiladora, considered as a separate sector of the economy, ranks as Mexico's second-largest industry after petroleum production.

During the 1980s, U.S. imports under HTS subheadings 9802.00.60 and 9802.00.80 increased rapidly as a share of total imports from Mexico; by 1991, they accounted for 47.1 percent of this total (table 5). In addition to machinery and equipment items, significant portions of apparel and miscellaneous manufactures imported from Mexico are made from U.S. materials and supplied by production-sharing units located in Mexico.

Mineral fuels, mostly petroleum, dominated U.S. imports from Mexico before the Mexican Government embarked on a comprehensive and highly successful economic diversification program. In 1982, petroleum accounted for more than one-half of all U.S. imports from Mexico. Although petroleum continued to be the number one U.S. import item from Mexico in 1991, its share dropped to 15.2 percent of the total. Imports were lower in 1991 than in 1990, which was a year of high world oil prices and extraordinary demand triggered by the Persian Gulf crisis.

In 1991, a record 12.6 percent of U.S. imports from Mexico entered duty free under the U.S. GSP program, for which Mexico is eligible as a developing country. Major Mexican products receiving GSP treatment include furniture, household electrical appliances, float glass, toys, games, and sporting goods. The share of products benefiting from GSP

treatment has increased through the years as a percentage of overall U.S. imports from Mexico.

United States Acts to Resolve Oilseeds Dispute with the EC

A report issued by a GATT dispute-settlement panel on March 16, 1992, concluded that the European Community's (EC's) reformed oilseeds subsidy program continues to impair the duty-free access that the EC had granted to the United States for oilseeds. The panel declared that, if the EC does not "expeditiously" eliminate the impairment by either modifying its new subsidy system or providing compensation, the United States should be granted authority by the GATT contracting parties to unilaterally withdraw concessions to offset the trade losses. At the GATT Council meeting on April 30, the EC indicated that it was not prepared to further change its oilseeds program. The U.S. Government responded by announcing that it intended to raise tariffs affecting $1 billion in annual imports from the EC, but also noted that it still hoped that a settlement could be reached and retaliation avoided.

Background

For 4 years, the United States has been actively challenging the GATT consistency of the EC's oilseeds subsidy program and seeking its reform. The dispute began in 1988 when the United States Trade Representative (USTR) initiated a section 301 investigation in response to a petition filed by the American Soybean Association (ASA). The ASA alleged that the subsidies paid to oilseed processors in the EC, which averaged three times world market price, were inconsistent with GATT because they encouraged the purchase of domestic oilseeds over imports and also because they impaired the duty-free access that the EC had granted the United States in 1962. As a result, according to the United States, U.S. oilseed exporters had been losing from $1.5 to $2 billion in sales annually.

After unsuccessful negotiations with the EC, the USTR referred the matter to a GATT dispute-settlement panel. The panel issued its report in December 1989, and the GATT Council adopted it in January 1990. The report supported the U.S. claims and recommended that the EC reform its subsidy program to bring it into compliance with the GATT. In July 1991, after more than a year of inaction during which U.S. producer associations and the Congress clamored for retaliation, the EC Commission proposed a reform. A modified version of the reform package became law in December 1991 and is scheduled to go into effect at the beginning of the 1992-93 marketing year.

The Reform

This reform, part of a pending reform of the Common Agricultural Policy (CAP), introduced several major changes. First, the EC would shift subsidy payments from processors to producers so that foreign oilseed producers would be accorded no less favorable treatment than that given to domestic producers. Second, instead of basing subsidies directly on production, the EC would calculate subsidies according to the number of hectares cultivated with adjustments for variations in regional yields and for any cultivated hectares exceeding a specified limit. Producers would be guaranteed a level of return in which subsidies would make up the difference between the EC target price (projected market price) and the actual market price. Third, the subsidy would not be adjusted unless the actual market price differed from the target price by more than 8 percent.

U.S. officials asserted that even the reformed subsidy program would continue to impair duty-free access. According to the United States, subsidies would still be double the estimated world market price and, therefore, would continue to shield EC producers from market fluctuations. The reform would provide no incentive to reduce production. Moreover, the 8-percent margin for adjustment was meaningless, the United States argued, since the subsidy level was so high. Thus, impairment would continue to exist because the duty-free access would continue to be prevented from having any impact on the competitive relationship between domestic and imported oilseeds.

Because the United States and the EC remained at odds over whether the reformed system actually conformed to the panel requirements, the EC yielded to the U.S. demand that the original dispute-settlement panel reconvene in December 1991 to settle the issue. According to the panel's report issued in March, the EC argued that its reform replaced the production subsidies with an income support system. The EC also asserted that this reform eliminated the impairment because EC producers were no longer "completely" insulated from the movement of import prices, and imported oilseeds, therefore, could compete freely with domestic oilseeds. In contrast, the United States argued that the EC's reform merely provided a change in the form of production subsidies, not a change in substance. The United States insisted that EC producers could continue to sell their oilseeds unaffected by price competition.

The Panel's Decision

The panel arrived at its decision by considering two key issues: (1) whether or not the subsidies are product-specific production subsidies, and (2) whether the duty-free status continues to be impaired under the new support system despite the fact that producers are only partially protected from the movement of import prices. As to the first issue, the panel concluded that the subsidies are product-specific production subsidies.

As to the second issue, the panel found that impairment can occur even when a production subsidy does not "completely" protect producers from price movements. The panel reasoned that since "the main value of a tariff concession is that it provides an

assurance of better market access through improved price competition," parties base their negotiations for tariff concessions on the expectation that the price effect of these concessions will not be systematically offset.

The panel concluded that, in providing an income floor for producers, the reformed subsidy program continues to protect EC oilseeds production as a whole from the effects of the general movement of import prices and thus impairs the benefits that should accrue as a result of the duty-free access granted to the United States. Reportedly, EC Agriculture Ministers unanimously rejected the panel's conclusions during their March 31 meeting.

Beer in North America: A Longtime Controversy Resolved?

Signed in 1987 and implemented at the start of 1989, the United States-Canada Free-Trade Agreement (FTA) expressly excluded the brewing industry from the reduction of barriers to trade accorded most other products under the bilateral pact. Existing practices governing the internal sale and distribution of beer were recognized, thus allowing the state and provincial controls that were already in place at the time of the signing of the agreement to remain intact. The FTA, however, did commit both sides to refrain from introducing any further discriminatory practices. Now, 4 years into the bilateral agreement, procedures involving the sale of beer have become the focus of bilateral disputes (see *IER*, July 1991). The disputes have resulted in each side's claiming discrimination against beer imported from the other. The tit-for-tat nature of these disputes has produced two separate panel reports from the GATT, which have concluded that each country maintains practices that are at odds with international rules. This article reviews the disputes and the attempts to resolve them.

U.S. Claims About Canadian Beer

In Canada, provincial liquor boards have exclusive control over the listing, distribution, pricing, and sale of all alcoholic beverages. The procedures and requirements vary from province to province. In addition, the provincial boards determine whether imported wines and beer may be sold in outlets other than provincial liquor stores.

Canada has yet to bring its import regime into compliance with the findings of a 1988 GATT dispute settlement panel report. That report was the result of a successful EC complaint against Canadian provincial liquor board restrictions. The panel found that certain provincial practices were inconsistent with certain articles of the GATT.

As a result of these ongoing concerns, the United States initiated a section 301 investigation in June 1990. The investigation followed receipt of a complaint from U.S. breweries (G. Heileman Brewing Co. and Stroh Brewery Co.). The U.S. industry complained that Canada had not implemented the recommendations of the 1988 GATT panel and that new discriminatory practices had been introduced in some provinces. The United States maintained that Canadian provincial liquor boards discriminate against U.S. beer with respect to listing, distribution, and pricing. Since existing beer distribution restrictions were grandfathered in the FTA, the United States Trade Representative declined to pursue the U.S. industry's complaint via the bilateral pact's dispute settlement mechanism. Instead, the matter was pursued in the GATT through its normal dispute settlement process, with bilateral consultations followed by the formation of a panel in February 1991. The GATT panel's report, which was completed in mid-September, called for an end to discriminatory pricing practices against U.S. beer, as well as for the termination of other unfair practices. A timetable for Canada to come up with a plan to address the GATT panel's findings was put into place. By March 1992, an "action plan" for the pricing practices was due; July was the scheduled deadline for addressing the other practices.

In December 1991 the United States announced its intent to impose, under authority of section 301, additional duties on Canadian beer if the actions found to be GATT inconsistent were not adequately addressed. A deadline of April 10, 1992, was given for the U.S. retaliatory action.

The Canadian response to the GATT report was announced in March 1992. It was a 3-year plan that would eliminate discrimination against U.S. beer by the end of March 1995. It also called for the elimination of interprovincial barriers to Canadian beer by July 1992. (Interprovincial barriers are a major problem in Canada, particularly in the brewing industry. For example, Moosehead beer, brewed in New Brunswick and very popular in the States, is not available in Ontario or in a number of other provinces.) The United States termed the Canadian action plan "inadequate," noting that internal Canadian barriers could be eliminated within 3 months, whereas cross-border discrimination against U.S. beer would take 3 years to be addressed. One Canadian response was that foreign companies should not be afforded quicker access than domestic suppliers. The counterpoint to this argument, which allows for continued protection no matter what, maintains that Canadian brewers cannot be expected to loosen up their market to foreign brewers when they are so tightly bound at home (that is, vis à vis other provinces).

Canadian Claims About U.S. Beer

While the United States was pursuing the matter of unfair trade practices by Canadian provincial liquor boards in the GATT, the Canadian Government initiated a dumping investigation against the Heileman, Stroh, and the Pabst Brewing Cos. in March 1991. The Canadian case was initiated by a complaint jointly filed by Labatt Breweries, Molson Breweries, and Pacific Brewing Co. These three

companies account for about 98 percent of the beer produced in the province of British Columbia, and, since 1988, they had seen the market share of the three U.S. producers increase from 6.8 to 9.2 percent in the province. The dumping case resulted in additional duties of approximately 30 percent being imposed on beer from the United States. During the investigation, the U.S. industry alleged that Canadian breweries were unable to be cost-competitive because of the internal barriers that restrict the shipment of beer across provincial borders. The Canadian Bureau of Competition Policy entered into the case, arguing before the Canadian International Trade Tribunal (CITT) that the imposition of dumping duties would not be in the Canadian public interest because it would impede competition with U.S. brewers; it further maintained that such competition would allow Canadian breweries to lower prices and be more competitive. While the duties remain in place, the Canadian dumping determination is under review by a binational panel, established under the terms of the FTA. Its decision is due in August 1992.

In February 1991, while the United States was calling for the formation of a GATT panel to explore a variety of Canadian provincial practices that limited U.S. beer, the Canadians, citing their problems with U.S. federal and state regulations and practices, called for GATT consultations as well. The Government of Canada had compiled a list of U.S. practices that it considered to be discriminatory in the treatment of Canadian beer. In May 1991 the United States agreed to the formation of a panel in the GATT to examine the Canadian complaints. The Canadian request for a panel review of its complaint was supported by Australia, the European Community, New Zealand, and Venezuela—all exporters of beer to the United States. The GATT panel report in February 1992 supported the Canadian claim of the unfairness of certain U.S. federal and state regulations and taxes.

Conclusion

About 1 percent of the U.S. beer market, or $190 million, is held by Canadian breweries. U.S. producers have a 3-percent share, or $30 million, of the Canadian market.

Following intense negotiations and with the United States threatening Canada with retaliation in the section 301 investigation, the two countries reached a compromise in the beer dispute. The compromise shortened the timeframe within which certain Canadian provincial liquor board distribution practices are to be dismantled. September 1993—the compromise date—cuts in half the earlier timeframe. Some pricing practices are to be eliminated as soon as July 1992. The U.S. representative to the GATT reported that the Federal Government was in the process of consulting State governments in a move to bring about compliance with the GATT panel ruling against the United States.

The similarity of issues under dispute—state practices and provincial practices—would seem to indicate that room for resolution exists. Although linkage of the issues is denied, each country has been found by the GATT to employ inconsistent practices in the area of the sale and distribution of beer, and each has been given a timeframe within which to satisfactorily address the issues. An opportunity for accommodation seems apparent. The patchwork of GATT-cited discriminatory practices on both sides of the border still awaits dismantling, but a timeframe has been agreed upon on the Canadian side. U.S. retaliation under section 301 in the form of higher U.S. duties on Canadian beer is no longer a threat. Nondiscriminatory trade—the basis for free trade agreements and negotiations—is in the long-term interests of both trading partners. The ability of both countries to seemingly resolve the beer dispute has significantly lessened bilateral trade tensions that previously resulted from disputes about lumber and automobiles. These controversies still persist.

EC's "Utilities Directive" Under Fire

Liberalization of public procurement is one goal in the European Community's (EC's) plan to create a single internal market by the end of 1992. To meet this objective, the EC has adopted a number of directives aimed at increasing transparency and reducing opportunities for discrimination in the award of public contracts. One such directive covers procurement procedures in the water, energy, transport, and telecommunications sectors. This directive, commonly referred to as the Utilities Directive, enters into effect in most of the 12 EC member states on January 1, 1993, and will permit discrimination against non-EC-origin bids. As a result, on February 21 the U.S. Government threatened to impose sanctions on the EC should it implement the discriminatory provisions of the directive.

The Utilities Directive contains two provisions designed to limit the benefits of liberalized procurement to EC suppliers. One provision mandates a 3-percent price preference to EC bids over equivalent non-EC-origin offers. Another provision states that procuring entities may exclude offers when less than half the "proportion of the products in the total value of the manufactured products constituting the tender" are of EC origin (the so-called 50-percent content rule). In other words, the origin of a bid is determined by comparing the total value of the component products that are of EC origin with the total value of non-EC-origin component products.

According to the directive, these provisions may be waived for those third countries that negotiate a bilateral or multilateral agreement with the EC that would "ensure comparable and effective access for EC undertakings to the markets of those third countries." Ongoing negotiations to expand and strengthen the GATT Government Procurement Code should end the formal discrimination of the Utilities Directive by committing signatories to follow a set of rules specifying open, nondiscriminatory procure-

ment. However, if negotiations are unsuccessful, the U.S. Government threatened to institute sanctions against the EC by January 1, 1993, the same day that the Utilities Directive enters into effect. The specific U.S. measures would be determined closer to their date of institution.

In general, U.S. suppliers and procurement experts believe that the EC's 1992 procurement program will eventually open the EC's public sector markets, which have long relied on "buy national" policies. However, although U.S. suppliers anticipate increased marketing opportunities based on greater transparency of procurement procedures, they have continued to show concern over the Utilities Directive. U.S. suppliers argue that the 50-percent-content rule, by denying competitive treatment and the procedural guarantees of the directive to non-EC-origin products, results in an unpredictable bidding situation. Furthermore, they claim that the directive could have the effect of requiring U.S. firms to invest in the EC in order to win procurement contracts.

The current threat by the U.S. Government stems from requirements under Title VII of the Omnibus Trade and Competitiveness Act of 1988. This Act requires that the Administration each April submit to Congress an annual report identifying foreign countries that discriminate against U.S. firms in the award of public contracts. The 1991 report identified certain practices in France, Germany, Italy, and the EC as a whole, and committed the Administration to conduct an "early review" of these issues in January 1992 if U.S. concerns had not been addressed by that time. In its "early review" report to Congress on February 21, the Administration determined that the EC met the statute's requirements for identification as discriminating against U.S. companies. This determination was reaffirmed on April 22, when the full report was submitted to Congress. The Administration announced, however, that the sanctions specified by the statute would be modified to take effect in January 1993, subject to implementation by the EC of the discriminatory provisions of the Utilities Directive.

The United States and the EC Reach Tentative Agreement on Subsidies to Aircraft Manufacturers

After 5 years of negotiation, the United States and the European Community (EC) reached a tentative agreement on April 1, 1992, to limit subsidies to the aircraft manufacturing industry. The agreement addresses a long-standing U.S. complaint about direct government subsidies provided to the consortium of European aircraft manufacturers, Airbus Industrie. The consortium includes Deutsche Airbus of Germany, Aerospatiale S.A. of France, British Aerospace PLC of the United Kingdom, and Construcciones Aeronauticas S.A. (CASA) of Spain. The EC, negotiating on behalf of the partner governments, has countered by saying that U.S. manufacturers receive indirect subsidies through defense contracts.

The 1992 agreement follows a breakdown of the bilateral negotiating process in 1991. U.S.-EC negotiations were suspended in February 1991 when the United States rejected an EC proposal to eliminate production subsidies and cap development subsidies at 45 percent of development costs. The United States wanted a 25-percent cap on development subsidies, which have been estimated to average between 75 and 90 percent of costs. After the suspension of negotiations, the United States proceeded to initiate two complaint procedures with the GATT Subsidies Code Committee. The first concerned a German exchange-rate-guarantee scheme that protects Deutsche Airbus from currency fluctuations, and the second addressed the full range of subsidies provided to Airbus by the partner governments.

The first U.S. request resulted in a ruling by a GATT dispute- settlement panel in January 1992 that the exchange-rate scheme violates the GATT Subsidies Code. However, the 22-nation Subsidies Committee has not yet accepted the panel's findings and a veto by European members is possible. (See *IER*, March 1992) The renewal of negotiations prompted by the second request failed to resolve the issue of broader subsidies, and, in August 1991, the United States initiated a conciliation phase to be mediated by the Subsidies Committee. Although the United States could have requested a dispute settlement panel 30 days after the initiation of the conciliation phase, it agreed to defer that request until March 31, 1992, in the hope that a negotiated settlement could be reached.

The most prominent issue disputed by the United States and the EC has been the cap on development subsidies, but other issues have also been sources of conflict. For example, there has been disagreement over whether and, if so, how to include indirect subsidies in the negotiations. The EC has supported its argument to include such subsidies by citing the findings of a report it commissioned from the U.S. law firm of Arnold & Porter. The report concluded that the U.S. Government had provided between $18 and $22 billion in direct and indirect support to the U.S. commercial aircraft industry between 1976 and 1990. Similarly, the U.S. Department of Commerce has estimated that the four partner governments had committed over $13.5 billion in direct subsidies to Airbus Industrie by 1989.

In addition, the United States has expressed interest in the extension of any U.S.-EC agreement into a multilateral agreement embracing other GATT nations involved in the civil aircraft industry, such as Canada and Japan. It has also requested that any agreement cover aircraft with 100 or more seats, whereas the EC has asked that coverage be limited to aircraft with 140 or more seats. Other areas of concern for the United States include the government loan guarantees made by Airbus to customers and the royalty-based system of repaying Airbus subsidies, which had resulted in repayments by 1989 of only $462 million, according to the U.S. Department of Commerce.

Although the April 1 agreement served to block the request for a GATT panel, at least temporarily, the details of the agreement have not yet been con-

firmed by either side. However, the agreement reportedly includes a cap on development subsidies of one-third of development costs, an end to production subsidies, a cap on indirect subsidies of 5 percent of a manufacturer's civil aircraft sales, coverage for aircraft with 100 or more seats, repayment of subsidies received on a royalty basis with interest rates ranging from 8.5 to 9.5 percent, and a waiver for subsidies granted before the agreement.

The terms of the agreement must still be ratified by the U.S. Government and the 12 member states of the EC. Although the U.S. aircraft industry and Airbus have expressed support for the agreement, several members of Congress, led by representatives of aircraft-manufacturing states, quickly condemned it. In particular, they oppose allowing subsidies to continue by capping, rather than eliminating, direct support. On April 8, the U.S. Senate approved a nonbinding resolution attacking the agreement. The U.S. Departments of Defense and Commerce are also reported to have objections to the limits on indirect subsidies. EC member states are reportedly studying the agreement's provisions, but have expressed concern that objections within the U.S. Government are placing the agreement in jeopardy. Discussion over the terms of the agreement is thus likely to continue throughout 1992.

UNCTAD Investigates Trade Finance in Developing Countries

The United Nations Conference on Trade and Development (UNCTAD) recently held its eighth quadrennial session in Cartagena de Indias, Colombia. One significant topic of discussion was the issue of trade finance in developing countries and, in particular, the possibility of establishing an interregional trade financing facility (ITFF) for promoting nontraditional exports. UNCTAD's concern is that current efforts by developing countries to liberalize and expand their mutual trade could be limited by the inadequacy of their trade financing systems, in terms of both overall capacity and degree of specialization.

An efficient mechanism for trade finance provides three principal services: (1) export credits, (2) some form of guarantee for export credit in its various forms, and (3) the refinancing and rediscounting of trade finance instruments. A 1990-91 survey carried out by the UNCTAD Secretariat indicated that 57 developing nations have some kind of facility for trade finance or export credit insurance. Of this total, however, only 16 countries had full-fledged schemes of a comprehensive and specialized nature; 8 countries had guarantee and/or insurance schemes, and 33 had only rudimentary trade finance schemes. The Secretariat's data, therefore, indicated that fewer than one-half of developing countries have an adequate trade finance infrastructure.

During 1991, the UNCTAD Secretariat undertook an investigation on the feasibility of establishing a commercially viable interregional mechanism for financing South-South trade in nontraditional exports (that is, manufactured goods instead of raw materials and basic commodities). A report issued by the Secretariat in July 1991 took the view that the inaccessibility of trade finance for most exporters in developing countries stems from both external and internal factors. The deficiencies in the trade finance schemes of the developing countries cited by the Secretariat included imperfect market conditions, lack of capital, and foreign exchange constraints imposed by national monetary authorities. The Secretariat's report further argued that, because trade finance operations in many developing countries are bereft of specialization, these countries cannot provide the operational experience and information crucial to new exporters. Moreover, insofar as central banks are often the only trade financing facility operating in developing countries, trade finance can become subsidiary to other functions, such as banking services, or, at worst, subject to other objectives, such as monetary control.

As indicated in table 6, which provides the latest available data, the level of trade from developing to developing country (i.e., South-South) covered by trade financing facilities was typically low in 1989, ranging from 0.5 percent to 20.5 percent of total nontraditional exports. UNCTAD estimates that the financing need for developing country exports currently ranges from $9.8 to $14.9 billion annually on the high side, and from $6.3 to $9.1 billion annually on the low side.

In conjunction with a U.S. consulting firm, UNCTAD issued a second study that considered whether an ITFF could be established on a "commercially viable" basis (that is, could fund itself at affordable premiums in global capital markets). A financial feasibility analysis showed that the proposed ITFF could be commercially viable under a variety of different scenarios. Moreover, the analysis indicated that the proposed ITFF would have a return on total earnings assets ranging from 1.0 to 2.5 percent higher than comparable figures for other multilateral institutions. The report also argued that, on the basis of the UNCTAD "high case" estimates of projected need for nontraditional export financing, an ITFF for such exports would increase South-South trade by approximately 6 percent annually. It further indicated that, under the most realistic scenarios conceived, the ITFF should within 5 years be able to provide between $1.4 billion and $7.9 billion annually in trade finance, or up to 86 percent of the projected "low-case" annual need of $9.1 billion.

UNCTAD's Trade Development Board, at its 38th session held in Geneva from September 23 to October 4, 1991, adopted resolution 394, which called upon the UNCTAD Secretariat to undertake consultations with all interested governments on the feasibility of establishing an ITFF among developing countries. Although a clause calling upon developing

Table 6
Official export credits extended by selected developing countries to other developing countries, by value and as a percentage of exports to other developing countries, 1986-89

(Million dollars)

Country	*1986*	*Percent Share*	*1987*	*Percent Share*	*1988*	*Percent Share*	*1989*
Bolivia	(1)	(1)	(1)	(1)	12.6	(1)	25.7
Chile	(1)	(1)	9.0	(1.2)	10.1	(0.7)	10.7
Colombia	4.5	(1)	4.8	(1)	4.9	(1)	(1)
Bangladesh	(1)	(9.3)	3.8	(11.5)	4.4	(14.1)	5.1
Jordan	12.4	(1.2)	15.7	(1.2)	21.2	(1.9)	(1)
Kuwait	16.4	(1)	16.6	(1)	17.0	(1)	(1)
South Korea	44.4	(3.3)	52.4	(1.1)	66.9	(0.5)	(1)
Malawi	0.1	(1)	0.1	(1)	0.1	(1)	(1)
Malaysia	5.0	(0.4)	5.4	(0.3)	6.1	(0.5)	(1)
Thailand	20.9	(2.1)	26.9	(1.9)	34.3	(2.8)	(1)
Turkey	14.9	(1)	18.7	(1)	16.9	(1)	(1)
Sri Lanka	1.7	(0.7)	1.9	(0.7)	2.1	(0.5)	(1)
Jamaica	11.0	(1)	17.3	(1)	15.0	(1)	(1)
Morocco	(1)	(1)	5.0	(19.3)	(1)	(20.5)	(1)
Nigeria	5.6	(1)	6.9	(1)	3.1	(1)	(1)
Senegal	1.3	(0.4)	1.6	(1.1)	1.8	(0.6)	1.9

[1] Not available.

Source: UNCTAD, *Trade Financing in Developing Countries: An Assessment and Evaluation of Existing Schemes and Future Requirements*, Aug. 2, 1991.

countries to take part in financing an ITFF was not successfully incorporated into the final declaration of UNCTAD VIII, the UNCTAD Secretariat has issued a query to the United States and other industrialized countries regarding their participation in the proposed ITFF.

SPECIAL FOCUS

The Environment and Trade: International Organizations Address the Issues

Overview

Environmental issues are receiving increased international attention as preparations are underway for a United Nations Conference on Environment and Development (UNCED), to be held in Rio de Janeiro, Brazil, in June 1992. The UNCED gathering marks two decades since the 1972 U.N. Conference on the Human Environment that provided the initial international forum for environmental issues. In January 1991, the Environment Committee of the Organization for Economic Cooperation and Development (OECD) also marked its 20th anniversary, when environment ministers issued their third Report on the State of the Environment and an environmental strategy for the 1990s. In their June 1991 ministerial communique, the trade and economics officials of the OECD Council directed the OECD to continue its initial work on environmental and trade issues, and called for a progress report at the 1992 OECD ministerial meeting.

In the General Agreement on Tariffs and Trade (GATT), contracting parties have also raised the issue of the environment in connection with possible links to trade issues considered in the GATT. First broached in 1982, the subject of the export of domestically prohibited goods was later addressed by a GATT working group established in July 1989. Following several extensions of its mandate, the group reported in December 1991 that adoption of its draft decision to require notification of the export of toxic wastes and hazardous materials that are prohibited under domestic law had reached an impasse.

In December 1990 and again in February 1991, a number of GATT members requested the reactivation of the Working Group on Environmental Measures and International Trade. In May 1991, the GATT Council held a structured debate as part of informal consultations undertaken to identify environmental measures already taken that might affect trade and development provisions of the GATT and Tokyo Round codes. In February 1992, the GATT published a report that outlined some of the trade issues involved in making environmental agreements, concluding that GATT trade rules are not an obstacle to environmental protection but that trade restrictions used for environmental purposes are likely to be counterproductive to protecting the environment.

OECD Joint Report on Trade and the Environment

In June 1991, a report[1] prepared jointly by the OECD Trade and Environment Committees was submitted to the OECD ministerial meeting, setting out initial views on key trade and environmental concerns. The report outlined preliminary ideas on the following matters: (1) the effects of environmental policies on trade, (2) the effects of trade and trade policies on the environment, (3) key trade and environmental issues, (4) the applicability of GATT to environmental concerns, and (5) the development of trade and environment guidelines. The three issues sketched out under the third section on key issues addressed the convergence of environmental policies among OECD member states, the use of trade instruments for environmental purposes, and the concerns of developing countries.

The group is scheduled to present its work undertaken since June 1991 to the OECD Ministerial Council in June 1992, with the aim of developing guidelines on ways to protect the environment and preserve the multilateral trade system. The June 1991 report and subsequent work have pointed to some tentative conclusions:

(1) Trade and environmental policies do not necessarily conflict, as often presented; they can in fact be mutually beneficial if environmental costs are more fully accounted for in the price system on which the world trade system is based.

(2) Trade and environmental policies need to be better integrated to take account of each area's basic principles in order to avoid trade and environmental conflicts.

(3) Environmental policy instruments should be used to implement environmental policy, and trade policy instruments should be used to target trade policy. Trade instruments, for example, should not be used to carry out environmental policy nor the reverse. The group also concluded that multilateral approaches to cross-border and global environmental issues were preferable to bilateral ones.

(4) Developing countries must be included in this move toward greater convergence of trade and environmental policies.

GATT Environmental Working Group

At the Brussels ministerial meeting of the Uruguay Round in December 1990, the countries belonging to the European Free Trade Association (EFTA) requested a formal statement by trade ministers on the subject of trade and the environment; the meeting, however, concluded without one. At the GATT Council meeting in February 1991, Austria requested, on behalf of the EFTA countries, that the Direc-

[1] This report was derestricted in February 1992.

tor-General reconvene the Working Group on Environmental Measures and International Trade, originally established in November 1971 as a mechanism for contracting party requests on the subject.

In March 1991, the United States stressed the need to update the working party's terms of reference from those set in 1971. The European Community (EC), although supporting the EFTA request, also sought to ensure that the group's mandate be sufficient to address the issue. Despite resistance from some developing countries, such as the ASEAN countries and India, which saw the informal consultations already existing as sufficient, the working group was re-established in October 1991 and held its first meeting in November 1991. Its current agenda covers examination of (1) trade provisions contained in existing multilateral environmental agreements[2] and their relation to GATT principles and provisions, (2) the transparency of national environmental regulations and their likely effect on trade, and (3) trade effects of new packaging and labeling requirements aimed at protecting the environment.

GATT Structured Environmental Debate

To sound out members on the issue of trade and the environment, the GATT Council requested Ambassador Rubens Ricupero to hold informal consultations on the EFTA proposal. These discussions led to a "structured debate" on trade and environmental issues on May 29-30, 1991, which followed an informal five-point outline developed by Ambassador Ricupero.[3] The broad conclusion of the debate was that, although there is a connection between trade and the environment, trade rules do not necessarily need to be changed to advance environmental protection. Some delegations were concerned that the GATT might not be the appropriate forum for such discussions, but the EC delegate urged that the GATT neither abdicate its competence in trade policies nor let itself be turned into a forum for the development of global environmental policies. The United States pointed out that many private groups, and private environmental groups in particular, have the erroneous view that GATT and free trade are inimical to environmental protection.

Environment and the Uruguay Round

In a short review of issues in the Uruguay Round that may pertain to environmental concerns, the GATT Secretariat touched upon six areas that include environmental topics: (1) the Agreement on Technical Barriers to Trade (TBT) or Standards Code; (2) agriculture; (3) subsidies and countervailing duties; (4) trade-related intellectual property rights (TRIPs); (5) GATT articles; and (6) services.

Standards Code

The Standards Code, stressing nondiscrimination and national treatment of signatories' regulations and standards, aims at harmonization of standards internationally. However, the code provisionally drafted in the Round includes the environment among the reasons explicitly cited as a legitimate object of regulation, appropriate for maintaining standards that differ from international ones.[4] The extension of the draft code to cover production processes and methods (PPMs), which provides for increased documentation, may also prove useful for environmental purposes.

Agricultural standards

The draft agriculture agreement on sanitary and phytosanitary measures addresses such issues as diseases, quarantine, food hygiene, additives, and residues. It would provide for differences on these topics to be resolved on a scientific basis. The relationship between agricultural health standards and the draft Standards Code above remains an outstanding issue.

Subsidies

Uruguay Round discussions on subsidies and countervailing duties have included four categories of "nonactionable" subsidies; that is, subsidies against which signatories would agree not to bring countervailing duty action. The four nonactionable categories include certain (1) research and development costs, (2) structural adjustment aids, (3) regional assistance, and (4) environmental subsidies. These environmental subsidies would allow adjustment payments to encourage pollution reduction in both plant and equipment. With respect to plants, existing facilities could be subsidized provided that this support not be used to replace entire facilities but be limited to that part of the cost involving only pollution reduction. Subsidies could be also used to encourage firms to develop and adopt new equipment or production processes exceeding existing environmental requirements in order to avoid, reduce, or eliminate nuisances and pollution.

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[2] Some of the major environmental agreements to be considered by the group are the Convention on International Trade in Endangered Species of Wild Fauna and Flora (1973); the Vienna Convention for the Protection of the Ozone Layer (1985); the Montreal Protocol on Substances that Deplete the Ozone Layer (1987); the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal (1989); and the Amended London Guidelines for Exchange of Information on Chemicals in International Trade (1989).

[3] The five points covered the (1) relationship between environmental policies, trade policies—including the further liberalization of trade—and sustainable development; (2) identification of measures taken on environmental grounds that affect international trade; (3) identification of sectors of particular interest to developing countries; (4) trade provisions in international environmental instruments; and (5) identification of GATT articles and Tokyo Round instruments relevant to trade measures taken for environmental purposes.

[4] Given the usual stipulation that these unharmonized standards not pose any hidden or "unnecessary obstacle to trade."

Intellectual property

Discussions in the Round that touch upon environmental issues in intellectual property negotiations concern the possibility of patents for inventions of plant and animal varieties or their biological processes.

GATT articles

Discussions in the Round on revision of GATT articles have included the possible addition of the environment as one of the permissible plant, animal, and human health and safety exceptions listed under GATT Article XX (General Exceptions).[5] The amended article would read as follows:

"Article XX"
"General Exceptions"

"Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures:

(a) . . .;

(b) necessary to protect **the environment,** human, animal or plant life or health;"

Services

Negotiators covering this area have discussed whether to include under the draft framework agreement for the General Agreement on Trade in Services (GATS) an exception for the environment similar to the one being considered under GATT Article XX(b).

GATT Report on Trade and Environment

The GATT report on trade and the environment issued in February 1992 underscored the point that GATT trade rules are not at odds with environmental protection, as often reported, but in fact can help support environmental protection by providing through trade expansion the income needed to pay for environmental policies. The report also pointed out that trade restrictions used to enforce environmental policies can be counterproductive because they reduce worldwide prosperity. Thus, the GATT report found nothing in its trade rules that prevented world governments from adopting policies to protect their own domestic environment, nor did it consider it likely that these rules would prove an obstacle to regional or global environmental policies agreed on by the world community.

[5] Article XX on general exceptions permits contracting parties to take trade actions not in conformity with the General Agreement for particular reasons.

Highlights of the GATT Report on Trade and Environment

The report covers four areas: (1) GATT law and the environment, (2) domestic environmental issues and world trade, (3) physical spillovers and multilateral cooperation, and (4) protection and the environment.

GATT Law and the Environment

GATT trade rules are based on the principle of nondiscrimination, developed so that foreign and domestic goods will be treated equally to prevent discrimination against foreign exports or imports for whatever reason, environmental reasons included. GATT trade rules do not prevent a contracting party from setting its own domestic environmental policy, but the report also notes that GATT rules do not allow the contracting party to apply market access differentially by using such reasons as the environment as a basis for different levels of trade access.

In contrast to domestic environmental policy, the GATT finds that multilateral environmental agreements incorporating trade provisions generally aim to protect fauna and flora—a goal that can be most efficiently served, for example, by a ban on all sales, not just on exports and imports. This would circumvent the need for discriminatory trade actions. Moreover, the report explains that any environmental agreement with sufficiently widespread support may prove able to muster the necessary two-thirds majority of GATT contracting parties to amend the General Agreement to accord with such an environmental pact.

Dispute experience

GATT dispute-settlement experience with environmental questions has revolved for the most part around Article XX, which outlines general exceptions to the General Agreement. The body of the article (see above in the section on "GATT articles") sanctions nondiscriminatory deviation from the General Agreement for certain reasons enumerated (a) through (j) in the article. These reasons include protection of public morals, public health and safety, national treasures, and the like. In addition to Article XX(b) on the protection of plant, animal, and human life or health, Article XX(g) allows measures relating to the conservation of exhaustible natural resources if carried out in conjunction with restrictions on domestic production and consumption.

The report mentions several of the cases involving environmental issues brought before the GATT in the past decade under Article XX, virtually all of which have involved the United States. These include a 1982 case addressing a U.S. ban on imports of tuna from Canada, a 1988 case concerning a Canadian ban on exports of unprocessed salmon and herring, and a 1990 case involving Thailand's ban on cigarette imports. The 1991 case on U.S. tuna imports from Mexico has been deferred by the GATT, pending bilateral attempts between the United States and Mexico to resolve the dispute.

In the first two cases, the GATT panels found that no attempt was made to use the trade measure justified under Article XX in conjunction with domestic measures, thus undermining the link between the environmental measure to be enforced and the necessary use of a trade measure to ensure this enforcement. In the case of Thailand's ban on cigarette imports, the panel also found that no domestic measures were taken to warrant the import ban and, moreover, that a proportional approach should be adopted whereby the least trade-damaging action is taken. In the case on U.S. tuna imports from Mexico, the panel found that the United States had unilaterally imposed its legislation beyond its jurisdiction; that is, beyond the 200 mile territorial waters limit.

Domestic Environment and Trade

Competitiveness

The GATT report treats the environment as a factor affecting competitiveness, much as capital, labor, and natural resource endowments are considered factors that help to determine economic competitiveness. This new environmental element has proven to be more problematic for trade interests in connection with production-related pollution than with consumption-related pollution. In the former case, domestic groups can complain that foreign environmental standards are too lax; in the latter case, however, domestic and foreign producers are essentially on an equal footing in complaining that environmental standards in general are too strict. Thus, the possibility for trade friction is greatly reduced when dealing with consumption-oriented pollution issues.

Production pollution

Where trade interests confront environmental interests centered around production pollution, an alliance can form between domestic industrial producers and environmentalists to seek import protection against "unfair" or "lower standard" imports that upset the "level playing field" terms sought in economic competitiveness. This call for protection in effect leaves governments with four choices: (1) lower the domestic environmental standard; (2) raise the foreign environmental standard; (3) offset with import duties the foreign "cost advantage" of lower standards; or (4) offset with domestic subsidies the domestic "cost disadvantage" of higher standards.

A significant assumption underlying the analysis is that, because the GATT does not consider any particular environmental standard "correct," calls for protection cannot in this sense be based on "higher" or "lower" standards. The GATT considers that more economically advanced countries are likely to have stricter environmental standards than less advanced ones. Although difficult to prove, the report cites a recent study[6] that illustrates this point by showing that, since 1976, air pollution appears to have worsened in countries until they attain a per capita income of roughly $5000, after which air quality improves as income rises. This result seems to indicate that demand for stricter environmental standards increases as income increases, providing support for the GATT argument to maintain an open trading system that allows countries to become more prosperous so they can fund improved environmental policies.

Alternatively, the report stresses that little evidence has been found that investment relocates solely because of less stringent environmental standards. Other factors, such as infrastructure, transport costs, taxes, market size, and labor availability, quality, and cost, were found to be at least as important. Overall, the GATT urges that certain demands for stricter environmental standards be kept in perspective, with a diversity of environmental standards to be expected. The GATT report foresees that forcing harmonization of environmental standards on others through the imposition of duties and other trade restrictions could badly divide the multilateral trade system, a division that would serve only to reduce the world prosperity necessary to advance environmental programs.

Consumption pollution

When trade interests confront environmental concerns focused on consumption-related pollution, both foreign and domestic producers face a more stringent environmental standard, which minimizes the grounds for trade friction over discrimination between domestic and foreign suppliers. Nonetheless, legitimate differences can arise in the perception of the risks that often precipitate stricter standards, such as for health and safety measures. The ongoing dispute over the use of hormones in meat in the United States and the European Community is one salient example of such differences. The report recommends minimizing potential trade friction over health standards by basing them on scientific evidence, with impartial experts and dispute settlement procedures available as needed.

Unilateralism

Without an impartial dispute process, the GATT underscores the danger of the "slippery slope" into one-sided protectionism, where one country asserts its right unilaterally to have a voice in a foreign country's policy, such as on environmental matters. The report cites two recent examples: (1) the dispute case between the United States and Mexico over dolphins caught in tuna fishing nets and (2) the threat of a U.S. ban on all animal imports (including fish and pearls) resulting from a dispute with Japan concerning hawksbill sea turtles, which are on the international endangered wildlife species list. In the former case, the GATT dispute process has been suspended to provide time to seek a mutual accommodation; in the latter case, Japan agreed to ban shell imports by the end of 1992.

The GATT points out the difficulty in generalizing this unilateral approach to others and, hence, its

[6] G.H. Grossman and A.B. Krueger, *Environmental Impacts of a North American Free Trade Agreement* (Princeton, N.J.: Princeton University), Oct. 1991, paper presented for a conference on the U.S.-Mexico free trade agreement.

overall unsustainability. It maintains that more acceptable alternatives would be "eco-labeling," so customers would be free to choose products that are more environmentally favorable, or actively promoting the environmental ideas of one country's nongovernment interest groups in other countries, thereby developing international support for improved policies. Such cooperation could set the stage for further multilateral agreement on necessary environmental standards, adding to the 127 multilateral environment accords appended to the report.

Environmental Spillovers and Multilateral Cooperation

In situations where environmental problems spill over beyond national borders into the international arena, the GATT still finds multilateral cooperation superior to unilateral action. An example of transborder spillovers into the "world commons" is the effect of emissions from carbon dioxide and chloroflurocarbons (CFCs) on the ozone layer of the earth's atmosphere, which many people believe to be a primary source of the global temperature increases known as "global warming." Indiscriminate logging of tropical timber and other policies that destroy the rainforests that help protect the earth's atmosphere through carbon dioxide absorption is another example of transborder spillovers into the world environmental "commons."

The report indicates four possible obstacles to multilateral cooperation over questions involving the environmental commons. Cooperation may fail because (1) a country does not agree that a problem exists, because either the evidence is unconvincing or exaggerated or the remedy seems ineffective; (2) a country may agree that a problem exists, but attach a lower or different priority to its resolution; (3) a country may agree on the problem and its severity, but object to a disproportionate burden of responsibility in addressing it; or (4) a country may in fact be seeking a "free ride," letting others attend to the problem.

Fortunately, the report finds that such difficulties in forging world environmental cooperation are not necessarily insurmountable because the contribution of a number of countries to an environmental problem is marginal, and, thus, their assistance to remedy it would not be burdensome. Questions of multilateral fairness aside, although cooperation among a majority of countries might be seen as essential, the active collaboration of only certain countries may be all that is needed to actually effect required changes. Even if multilateral cooperation should fail, the GATT argues that positive incentives, such as financial assistance or environment-friendly technology transfer, are more efficacious in promoting positive environmental policies than negative incentives, such as trade retaliation. The GATT finds little scope for the use of trade measures against particular goods in the hope of inducing particular policies. The report concedes that the scope for using trade measures to influence environmental policies may be essentially limitless if broadened to encompass unrelated goods and services. However, the report reinforces the idea that if governments target a broad spectrum of goods with trade measures to help induce sound environmental policies abroad, then positive inducements are clearly preferable to negative ones.

Trade Protection and the Environment

The report concludes with a more specific look at the environmental benefits likely to arise from the liberalization of agriculture, as well as with some conclusions about the interaction between trade policy and the environment. The GATT expects worldwide liberalization of agriculture to improve the environment on at least two counts: (1) reduced chemical and fertilizer use as production shifts from countries with high input use to countries with greater comparative advantage and lower input use, such as developing countries where fertilizer use is one-tenth that of Europe, and (2) a slowdown in large-scale deforestation since, based on the findings of GATT, additional production is likely to come from more efficient use of existing farm land rather than newly cleared lands.

With this example, the GATT points out that the existing barriers to trade in agriculture are already harmful to the environment but that strong protectionist interests have managed to maintain these restrictions nonetheless. This is a warning, GATT notes, that increased interest in environmental protection could lead to increased demands for trade protectionism. In summary, the GATT cautions that the most efficient policy tool with which to address the environment is environmental policy, not trade policy. If the more efficient policy to support environmental standards is forsaken in favor of less efficient enforcement by means of trade policy, then GATT rules blocking this distorted use of trade measures will make the General Agreement appear "environment unfriendly" by denying governments the use of multilateral trade rules to enforce unilateral or otherwise imposed environmental standards.

Correction: The article entitled "U.S.-Japan Semiconductor Agreement Under Fire," which appeared in the April 1992 *International Economic Review*, contained a statistical error. On page 9, the U.S. estimate of the foreign share of Japan's semiconductor market during the fourth quarter of 1990 was cited as 15.5 percent. The correct U.S. estimate is 13.3 percent. Also, please note that the name of the so-called agreement is the "U.S.-Japan Semiconductor Arrangement" and that it was finalized on July 11, 1991, through an exchange of letters.

STATISTICAL TABLES

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Industrial production, by selected countries and by specified periods, January 1989–January 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1989	1990	1991	1991 I	II	III	IV	Aug.	Sept.	Oct.	Nov.	Dec.	1992 Jan.
United States	2.6	1.0	-1.9	-9.6	2.4	6.8	-0.5	-1.1	2.2	0	-3.3	-5.4	-9.6
Japan	6.2	4.5	2.2	-0.5	-2.7	1.3	-4.2	-26.5	5.8	-0.9	0	-14.9	-9.1
Canada	2.0	0.3	-0.9	-1.2	-6.4	-3.3	-1.0	-4.3	-2.2	0	0	0	1.1
Germany	5.3	5.9	3.3	0.6	8.4	-4.7	-1.3	-24.1	18.3	-5.7	9.2	-15.4	1.0
United Kingdom	0.3	-0.6	-3.0	-1.1	-4.4	4.2	-0.6	-19.3	1.1	8.2	-5.5	-3.3	(1)
France	3.7	1.3	0.4	1.0	3.1	2.0	-1.7	0	-15.6	14.7	-8.1	-10.1	(1)
Italy	3.9	-0.6	-2.3	3.9	-3.2	-9.1	5.2	-40.6	51.7	-3.1	42.3	-37.4	(1)

[1] Not available.

Note— Data presented for Germany includes information only for what was once West Germany. Data for the combined Germanies will be used when available.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, March 20, 1992.

Consumer prices, by selected countries and by specified periods, January 1989–February 1992

(Percentage change from previous period, seasonally adjusted at annual rate)

Country	1989	1990	1991	1991 I	II	III	IV	Jul.	Aug.	Sept.	Oct..	Nov.	Dec.	1992 Jan.	Feb.
United States	4.8	5.4	4.2	3.5	2.1	2.7	3.6	2.7	2.7	4.5	0.9	4.5	2.6	0.9	(1)
Japan	2.3	3.1	3.3	4.3	1.0	2.0	3.8	3.5	2.5	-3.9	7.7	9.0	-0.9	-1.4	-0.3
Canada	5.0	4.8	5.6	11.3	2.9	1.8	0.2	1.9	2.9	0	-2.8	2.9	0	1.0	(1)
Germany	2.8	2.7	3.5	1.4	3.5	7.6	3.4	15.2	2.2	3.3	3.3	5.5	1.1	1.1	(1)
United Kingdom	7.8	9.5	5.9	4.2	4.1	4.2	4.1	4.7	2.1	3.3	3.7	5.3	5.9	3.1	(1)
France	3.5	3.4	3.1	2.3	2.2	3.1	3.6	3.3	3.1	2.9	3.7	4.2	3.7	2.3	(1)
Italy	6.6	6.1	6.5	6.9	6.2	5.7	5.7	5.0	4.8	5.2	5.7	7.2	4.5	7.7	-0.1

[1] Not available.

Note— Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, March 20, 1992.

Unemployment rates (civilian labor force basis),[1] by selected countries and by specified periods, January 1989–February 1992

Country	1989	1990	1991	1991 I	II	III	IV	Sept.	Oct.	Nov.	Dec.	1992 Jan.	Feb.
United States	5.3	5.5	6.7	6.5	6.7	6.8	6.9	6.7	6.9	6.9	7.1	7.1	7.3
Japan	2.3	2.1	2.1	2.1	2.1	2.2	2.2	2.2	2.1	2.2	2.2	2.0	(4)
Canada	7.5	8.1	10.3	10.2	10.3	10.4	10.3	10.2	10.3	10.3	10.3	10.4	10.6
Germany	5.7	5.2	4.4	4.5	4.4	4.5	4.5	4.6	4.6	4.4	4.4	4.4	4.4
United Kingdom	7.1	6.9	9.4	8.2	9.2	10.0	10.3	10.1	10.2	10.3	10.5	10.7	(4)
France	9.6	9.2	9.8	9.4	9.8	10.0	10.3	(4)	10.2	10.3	10.3	10.4	10.5
Italy[2]	7.8	7.0	6.9	6.9	7.0	6.7	6.9	(3)	(3)	(3)	(3)	(3)	(3)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S. rate.

[2] Many Italians reported as unemployed did not actively seek work in the past 30 days, and they have been excluded for comparability with U.S. concepts. Inclusion of such persons would increase the unemployment rate to 11–12 percent in 1986–1990.

[3] Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

[4] Not available.

Source: *Unemployment Rates in Nine Countries*, U.S. Department of Labor, April 1992.

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Money–market interest rates,[1] by selected countries and by specified periods, January 1989–March 1992

(Percentage, annual rates)

				1991									1992		
Country	*1989*	*1990*	*1991*	*I*	*II*	*III*	*IV*	*Aug.*	*Sept*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*
United States	9.3	8.3	5.9	6.8	6.1	5.8	5.0	5.6	5.5	5.3	4.9	4.4	4.5	4.1	4.4
Japan	5.3	6.9	7.5	7.7	7.6	7.6	7.2	7.6	7.6	7.4	7.3	7.0	([2])	([2])	([2])
Canada	12.2	13.0	9.0	10.5	9.2	8.7	7.8	8.7	8.6	8.3	7.7	7.5	7.3	7.3	([2])
Germany	7.1	8.5	9.2	9.1	9.0	9.2	9.5	9.2	9.2	9.2	9.4	9.6	9.5	9.6	([2])
United Kingdom	13.9	14.8	11.5	13.1	11.5	10.7	10.6	10.9	10.2	11.5	10.5	10.8	10.6	10.4	([2])
France	9.4	10.3	9.6	9.7	9.3	9.5	9.6	9.5	9.4	10.4	9.5	10.1	9.9	9.9	([2])
Italy	12.8	12.7	12.1	12.7	11.7	11.8	12.0	11.9	11.7	11.5	11.9	12.6	12.1	12.2	([2])

[1] 90–day certificate of deposit.

[2] Not available.

Note—Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Federal Reserve Statistical Release, April 13, 1992; Economic and Energy Indicators*, Central Intelligence Agency, March 20, 1992.

Effective exchange rates of the U.S. dollar, by specified periods, January 1989–March 1992

(Percentage change from previous period)

				1991								1992		
Item	*1989*	*1990*	*1991*	*I*	*II*	*III*	*IV*	*Sept.*	*Oct.*	*Nov.*	*Dec.*	*Jan.*	*Feb.*	*Mar.*
Unadjusted:														
Index[1]	91.3	86.5	85.5	82.8	87.7	87.6	84.0	86.1	85.3	83.8	82.8	83.0	84.8	86.8
Percentage change	6.4	–5.3	–1.2	1.3	5.6	–.1	–4.1	–1.9	–.9	–1.7	–1.2	.2	2.1	2.3
Adjusted:														
Index[1]	91.8	88.1	87.0	85.2	89.6	88.4	85.6	86.8	86.9	85.4	84.4	84.6	86.4	88.6
Percentage change	6.8	–4.0	–1.2	1.3	4.9	–.1	–3.2	–2.3	–1.0	–1.7	–1.2	.2	3.1	2.5

[1] 1980–82 average=100.

Note.—The foreign–currency value of the U.S. dollar is a trade–weighted average in terms of the currencies of 15 other major nations. The inflation–adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S. price competitiveness.

Source: Morgan Guaranty Trust Co.of New York, April 1992.

Trade balances, by selected countries and by specified periods, January 1989–February 1992

(In billions of U.S. dollars, f.o.b. basis, at an annual rate)

Country	1989	1990	1991	1991 II	1991 III	1991 IV	1991 Oct.	1991 Nov.	1991 Dec.	1992 Jan.	1992 Feb.
United States[1]	–109.1	–101.7	–66.2	–52.2	–72.4	–66.8	–75.8	–50.0	–71.9	–69.2	–40.6
Japan	77.4	63.5	103.3	94.0	110.0	117.2	115.2	108.0	127.2	(3)	(3)
Canada	6.0	9.4	6.4	10.4	3.2	3.2	1.2	2.4	7.2	(3)	(3)
Germany[2]	71.8	57.3	(3)	–0.8	(3)	(3)	(3)	(3)	(3)	(3)	(3)
United Kingdom	–40.4	–33.4	–17.9	–14.0	–14.4	–18.0	–18.0	–19.2	–15.6	(3)	(3)
France	–7.0	–9.1	–5.3	–5.2	–7.6	2.8	13.2	0	–6.0	8.4	(3)
Italy	–13.0	–11.7	–12.9	–17.2	–18.4	–11.6	–16.8	–12.0	–4.8	1.2	(3)

[1] Figures are adjusted to reflect change in U.S. Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f. value.
[2] Imports, c.i.f. value, adjusted.
[3] Not available.

Note— Data presented for Germany includes information only for what was once West Germany. When data for the combined Germanies are available they will be used.

Source: *Economic and Energy Indicators*, U.S. Central Intelligence Agency, March 20, 1992 and *Advance Report on U.S. Merchandise Trade*, U.S. Department of Commerce, April 16, 1992

U.S. trade balance,[1] by major commodity categories, and by specified periods, January 1989–February 1992

(In billions of dollars)

Country	1989	1990	1991	1991 III	1991 IV	1991 Oct.	1991 Nov.	1991 Dec.	1992 Jan.	1992 Feb.
Commodity categories:										
Agriculture	17.9	16.3	16.2	3.3	5.4	1.5	2.1	1.8	1.6	1.9
Petroleum and selected product—(unadjusted)	–44.7	–54.6	–42.3	–10.9	10.0	–3.5	–3.3	–3.2	–3.0	–2.2
Manufactured goods	–103.2	–90.1	–67.2	–20.9	–21.5	–9.3	–6.0	–6.2	–5.7	–3.9
Selected countries:										
Western Europe	–1.3	4.0	16.1	1.9	3.3	.5	1.7	1.1	1.7	2.6
Canada[2]	–9.6	–7.7	–6.0	–1.5	–2.1	.3	–.9	–.9	–.2	–.7
Japan	–49.0	–41.0	–43.4	–11.7	–12.4	....	–3.4	–4.4	–3.8	–3.0
OPEC (unadjusted)	–17.3	–24.3	–13.8	–3.5	–2.5	–1.1	–.8	–.6	–.7	–.4
Unit value of U.S. imports of petroleum and selected products (unadjusted)	$16.80	$19.75	$17.49	$16.65	$17.52	$17.98	$18.04	$16.55	$14.85	$14.82

[1] Exports, f.a.s. value, unadjusted. Imports, customs value, unadjusted.
[2] Beginning with February 1987, figures include previously undocumented exports to Canada.

Source: Advance Report on U.S. Merchandise Trade, U.S. Department of Commerce, April 16, 1992.

END

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